DEPARTMENT OF THE NAVY
NAVY WORKING CAPITAL FUND
DEPOT MAINTENANCE ACTIVITY GROUP– MARINE CORPS DEPOTS
Fiscal Year (FY) 2005 BUDGET Estimate
February 2004

Activity Group Functions:

The mission of the Marine Corps' Depot Maintenance Activity Group (DMAG) is to provide the quality products and responsive maintenance support services required to maintain a core industrial base in support of mobilization, surge and reconstitution requirements. The maintenance functions, performed by the DMAG, include repair, rebuild, modification, and Inspect and Repair Only as Necessary (IROAN) for all types of ground combat and combat support equipment. DMAG maintenance services are used by Marine Corps, other Department of Defense (DoD) activities, as well as foreign military customers. Other functions performed include performance of maintenance related services such as preservation, testing, technical evaluation, calibration, and fabrication of automated test equipment.

Activity Group Composition:

The DMAG is comprised of two Multi-Commodity Maintenance Centers located in Albany, Georgia and Barstow, California. The Maintenance Centers are part of the Marine Corps Logistics Command (LOGCOM). The Centers maintain virtually identical capabilities in order to provide support to Marine Corps operational units, regardless of the unit geographical location. In order to support these functions, the Marine Corps Maintenance Centers maintain over 70 skill sets inherent in a wide variety of diversified personnel.

Significant Changes in Activity Group:

The DMAG Fiscal Year (FY) 2005 President's Budget submission reflects major changes from the FY 2004 President's Budget based on significant fluctuation in workload and management initiatives aimed at increasing and improving productivity yield. As a result of Operation Enduring Freedom and Operation Iraqi Freedom (OEF/OIF), Marine Corps equipment requires timely repair in order to reconstitute the Marine Corps' Maritime Prepositioning Forces (MPF) Program and Operating Forces. Currently, this effort consists of over 4,800 expedite items resulting in millions of dollars in customer orders to support unplanned workload. The FY 2003 Master Work Schedule (MWS) was adjusted to accommodate these expedites and over $70 million of known reconstitution requirements in FY 2003 and FY 2004. As a result of combat-ravaged equipment and weapons systems returning from current warfare, additional workload is reflected in this budget submission.

Financial Profile:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
	(Dollars in Millions)		
Revenue	$228.1	$260.6	$225.4
Cost of Goods Sold	$234.1	$253.1	$230.1
Operating Results (Net Revenue)	($ 6.0)	$7.5	($4.7)
Extraordinary Expense	$ 0.6	$0.0	$0.0
Net Operating Results	($ 5.4)	$7.5	($4.7)
Prior Year Adjustment	$0.5	$0.0	$0.0
Current Change to Accumulated Operating Results	($4.9)	$7.5	($4.7)
Beginning Accumulated Operating Results	$2.2	($2.8)	$4.7
Accumulated Operating Results	($2.8)	$4.7	$0.0
Net Outlays	$27.5	($26.4)	($0.2)
Collections	$215.4	$265.3	$228.1
Disbursements	$242.9	$238.9	$227.9

As depicted on the Revenue and Cost Statement Exhibit, the financial indicators above reflect major changes from the FY 2004 President's Budget based on the fluctuation in workload as a result of OEF/OIF, as well as increased efficiency initiatives.

Revenue

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
	(Dollars in Millions)		
Revenue	$228.1	$260.6	$225.4

FY 2003 revenue decreased slightly from the FY 2004 President's Budget as a result of a mid-year workload change centered on a reduction of the M1A1 Main Battle Tank line and unplanned equipment expedite requirements and reconstitution work due to OEF/OIF. FY 2004 revenue is projected to increase as a result of reconstitution workload influx addressed above. FY 2005 revenue will decrease due to the decline in workload and the rate adjustment to achieve zero Accumulated Operating Results.

Cost of Goods Sold:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
	(Dollars in Millions)		
Cost of Goods Sold	$234.1	$253.1	$230.1

FY 2003 actual Cost of Goods Sold (COGS) was $6.1 million higher than the FY 2004 President's Budget primarily due to changes to the Master Work Schedule, additional work from reconstitution efforts and unbudgeted workload from other customers.

From FY 2003 to FY 2004, Cost of Goods Sold increased as a result of reconstitution workload influx as previously mentioned as well as increased costs for an unplanned pay raise and production equipment repairs and major maintenance costs reintroduced in this budget submission.

Cost of Goods Sold decreases from FY 2004 to FY 2005 as the reconstitution workload carried in from FY 2003 and FY 2004 is completed. This decline in workload will force a 22% reduction in personnel through release of temporary employees and Voluntary Separation Incentive Pay (VSIP).

Cash Collections, Disbursements and Net Outlays

	(Dollars in Millions)		
	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
Net Outlays	$27.5	($26.4)	($0.2)
Collections	$215.4	$265.3	$228.1
Disbursements	$242.9	$238.9	$227.9

New Orders:

	(Dollars in Millions)		
	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
New Orders	$313.2	$187.8	$212.7

Although additional workload is reflected in this budget submission, New Orders projected for the Marine Corps activities fluctuate vastly between the budget years. The increase in total new orders in FY 2003 from the FY 2004 President's Budget, a decline in FY 2004, and an increase in FY 2005 demonstrates the influence of OEF/OIF. This budget also identifies new customer orders, based on receipt of letters of intent, resulting from ongoing Command efforts to maintain core competency skills in the Maintenance Centers.

Workload:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
Direct Labor Hours (000s)	1,803	1,980	1,738
Direct Labor Hours Overtime Usage	17.3%	7.1%	5.0%

Staffing:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
Civilian End Strength	1,486	1,691	1,318
Civilian Work Years – regular time	1,470	1,652	1,490
Military End Strength	15	12	12
Military Work Years	11	12	12

Performance Indicators:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
Schedule Conformance	96.2%	99.5%	99.3%
Quality Deficiency Reports	0.2%	0.2%	0.2%

To support Operation Enduring Freedom and Operation Iraqi Freedom (OEF/OIF), Marine Corps equipment requires timely repair in order to reconstitute the Marine Corps' Maritime Prepositioning Forces (MPF) and Operating Forces. Over 4,800 expedite items were worked in the Depots in FY 2003 resulting in millions of dollars in customer orders to support unplanned workload. The FY 2003 Master Work Schedule (MWS) was adjusted to accommodate these expedites and thereby impacted the Schedule Conformance Performance Indicator.

Quality Deficiency Reports remain relatively constant in FY 2003, FY 2004 and FY 2005.

Customer Rate Changes:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
Stabilized Customer Rate	$117.62	$131.09	$127.88
Year to Year Percent Change	11.17%	11.45%	-2.45%

The slight decrease in FY 2005 stabilized rate from FY 2004 is the result of several factors. Total direct labor hours for new orders accepted and programmed for execution increased from FY 2004 rate calculation as a result of reconstitution workload influx. Associated Cost of Goods Sold increased as a net result of the increased workload, reintroduction of equipment and major maintenance costs and elimination of personnel costs associated with the RIF reflected in the FY 2004 rate. The FY 2005 rate reflects the impact of these factors as well as incorporating a negative $4.8 million Accumulated Operating Result (AOR) recoupment factor to achieve the required zero AOR in FY 2005.

Unit Costs:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
Cost per Direct Labor Hour	$129.84	$127.86	$132.54

The reduction of the material intensive M1A1 Main Battle Tank production line in FY 2003 removed significant direct material costs from the FY 2003 unit price, leading to the reduction from the FY 2004 President's Budget. Unit cost decreased in FY 2004 as a result of increased DLH execution outpacing the additional costs of production equipment repairs and increase from reinstating major maintenance. FY 2005 increased as decline in workload and direct labor hours coupled with VERA/VSIP/RIF cost to release personnel combines to yield the increase in budgeted unit cost.

Capital Budget Authority:

	FY 2003 Actuals	FY 2004 Budget	FY 2005 Budget
Equipment/Non-ADPE/TELE	$0.6	$1.4	$3.7
ADPE/TELECOM Equipment	$0.4	$0.0	$0.0
Software Development	$0.0	$0.0	$0.0
Minor Construction	$1.8	$2.5	$0.5
Total	$2.8	$3.9	$4.2